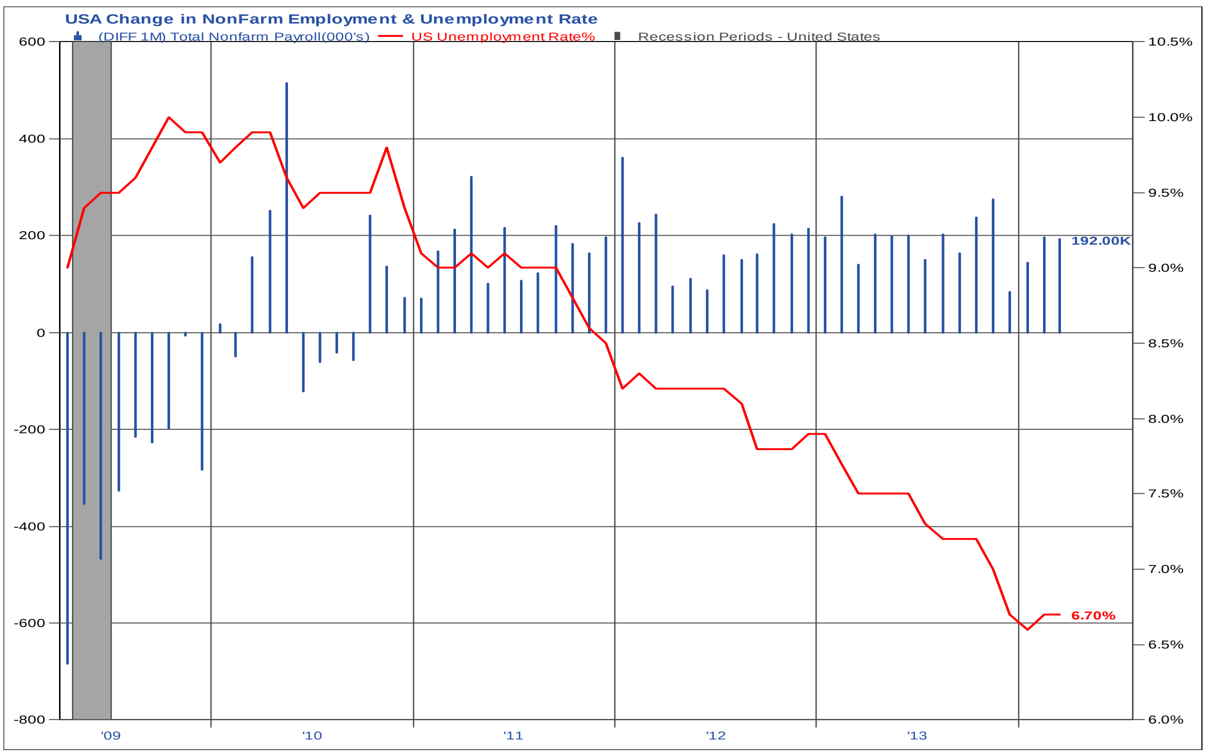
APPLETON PARTNERS, INC.

This Week in the Bond Market 04/28/2014

Headline News: Looking Toward Jobs Report on Friday

- In the last two weeks, the City of Detroit has made significant progress in negotiating settlements with a number of important creditors, including three bond insurers representing the majority of unlimited tax general obligation bonds and committees representing both public safety retirees and general city retirees. Although contingencies remain, the majority of settlements negotiated represent much higher recoveries than originally proposed by the city. It is uncertain if Detroit's restructuring of long term liabilities, which appears limited so far, will put the city on a sustainable path post-bankruptcy.
- The global appetite for yield continues, as evidenced by a new record-sized high-yield bond offering. Numericable is offering €8.4 billion in bonds across six tranches in support of the company's acquisition of SFR from Vivendi. The combined company will be the second-largest operator in France's fixed broadband market, with a 25% market share. Demand was so strong for the offering that the deal was upsized 40% from an original €6 billion issue. The deal included tranches in both euro and dollar currency, which spurred demand from both sides of the Atlantic.
- The market will be anticipating the economic releases on Friday, with Nonfarm payrolls expected to increase by 215k and the Unemployment rate predicted to tick down to 6.6% from 6.7%. On Wednesday, the FOMC will likely announce another $10 billion reduction in the Quantitative Easing to bring it to $45 billion per month and no change in the Fed Funds Rate. The market has priced in the gradual reductions in the Quantitative Easing and understands that the Fed wants to end the stimulus to see how the economy behaves without it.



Source: FactSet

Market Update: Strong Demand Remains

- The Municipal market held strong last week, with the 10Yr AAA yielding 2.27%, despite the increased new issue calendar. However, this week the calendar drops again to $4.7 billion from the prior week's $7.4 billion. Demand for Municipals is still high and last week, fund flows increased again to $244 million, bringing the year-to-date total inflows to $339 million.
- Investment Grade Credit continues to trade at 2014 tights and not too far away from post-recession levels. New issuance continues to be strong, as $34.95 billion came to market last week which was the busiest session in six weeks. Year-to-date volume is at $509.74 billion and April is likely to hit $100 billion. All of this issuance continues to perform well as high investor demand drives prices higher than initial pricing. Additional issuance of nearly $17 billion from Apple could come as soon as this week.

FIXED INCOME INDEX RETURNS

	MTD 4/25/14	YTD 4/25/14
Barclays 3Yr	0.28	0.61
Barclays 5Yr	0.66	1.66
Barclays 7Yr	1.35	3.40
Barclays MM Short 1-5Yr	0.29	0.60
Barclays MM 1-10Yr	0.97	2.37
ML US Gov/Corp 1-10 Yr	0.30	1.18

Source: IDC

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